Jan F. Reimers
President

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ICORE
Settlements
Separations and Costs
Engineering/Technical Services
Management Consulting

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August 7, 1997

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, NW
Washington, DC 20554

RE: Rural Telephone Companies' Joint Emergency Motion for Partial Stay, CC Docket No. 96-45

Dear Mr. Caton:

Enclosed herewith for filing with the Commission are the original and five copies of the Comments of ICORE, Inc. in the above-captioned matter.

Please acknowledge receipt hereof by affixing a notation on the duplicate copy of the letter furnished herewith for such purpose and remitting same to bearer.

Sincerely,

Reimers

Enclosures

cc:	Sheryl Todd, Universal Service Branch	(2 copies)
	Office of General Counsel	(2 copies)
	International Transcription Service	(1 copy)

No. of Copies rec'd 0+5
List ABCDE

CORPORATE 326 S. 2nd Street • Emmaus, PA 18049 • Telephone 610-967-3944 • Fax 610-967-5036

Jan F. Reimers
President

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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON D.C. 20554

In the Matter of:)
) CC Docket No. 96-45
Rural Telephone Companies' Joint Emergency)
Petition for Partial Stay

COMMENTS OF ICORE INC.

The consulting firm of ICORE, Inc. (ICORE), on behalf of its many rural telephone company clients, respectfully submits these Comments in the above-captioned proceeding.

I. INTRODUCTION

The small, incumbent local exchange carriers (ILECs) represented by ICORE (the ICORE companies) are typical of the hundreds of rural ILECs that have long been the standard bearers of universal service in rural America. As such, they and their customers will be profoundly affected by the radical changes proposed in the Commission's Report and Order (FCC 97-157, rel. May 8, 1997) in the matter of the Federal-State Joint Board on Universal Service, CC Docket 96-45 (the Order).

In fact, the ICORE companies believe very strongly that the Order, as written, will quickly put an end to universal service in rural America.

While the ICORE companies are extremely concerned with the Commission's plans to make the new universal service fund portable to competitive Local Exchange Carriers

(CLECs)[1] and cap corporate operations expenses,[2] they are even more concerned about the Order's treatment of DEM weighting.

The Commission's decision to shift DEM weighting costs from access charges to the new USF mechanism[3] will cause immediate and severe financial hardship for the ICORE companies. For the reasons detailed below, we respectfully request the Commission grant the Rural Telephone Companies' Joint Emergency Motion for Partial Stay.

II. <u>DEM WEIGHTING IS A RATIONAL COST ALLOCATION METHOD, NOT AN IMPLICIT SUBSIDY</u>

Contrary to the Commission's belief, DEM weighting is a valid, proven cost allocation methodology, not an "implicit subsidy"[4] or an "implicit support mechanism."[5] In fact, the Commission does recognize "that smaller telephone companies have higher local switching costs than larger ILECs because the smaller companies cannot take advantage of certain economies of scale."[6]

But DEM weighting goes far beyond recognizing the lack of economies of scale and scope in small ILECs' switching costs. It properly recognizes that a disproportionate share of

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[1] Order, at ¶ 273.

[2] *Id.*, at ¶ 283.

[3] *Id.*, at ¶ 303.

[4] *Id.*, at ¶ 10.

[5] *Id.*, at ¶ 212.

[6] *Id.*, at ¶ 212.

the costs of a rural carrier's switching plant is attributable to toll network functions. Rural ILECs, in truth, could serve their local customers with little more than a PBX.

Most of the sophisticated and expensive features inherent in today's digital switches are necessary for toll network functions — translation, automatic number identification, recording, SS7, equal access, number portability, CLASS features, etc. Since the switching costs associated with local and EAS services are minimal, a weighted cost allocation methodology which properly assigns costs driven by interstate network requirements to the interstate jurisdiction is totally appropriate.

In addition, most rural carriers continue to charge for local service on a flat rate basis, so local usage is perceived by customers as "free." Toll usage, conversely, is restricted by its per minute pricing structure. DEM weighting rightfully recognizes the deterrent effect of toll versus local pricing.

Finally, DEM weighting helps offset the inappropriate double counting of local exchange intra-office minutes.[7] In other words, a one minute local intra-office call — a call which uses the digital switch for one minute — is wrongfully counted as two local minutes in the development of the basic DEM. This obviously understates the interstate portion of DEM because one interstate minute is counted as one, not two. DEM weighting helps counteract this anomaly in the process.

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[7] See 47 C.F.R. § 36.125(b) which includes in the DEM weighting calculation "the minutes of holding time of the originating and terminating local switching equipment. . ."

For all of the reasons above, DEM weighting is a rational cost allocation methodology, not an implicit subsidy. It does not, therefore, have to be transferred to a new universal service mechanism to satisfy the requirements of Section 254 of the Communications Act.[8]

Instead, the Commission should retain DEM weighting costs as part of access charges, while directing the federal-state joint board on separations to address the various issues surrounding DEM weighting. The joint board should consider, among other things, the level of interstate toll network costs included in the switches of small ILECs; the treatment of local minutes, including Internet, in the development of the DEM factor; whether current weighting rules are sufficient to properly assign costs to the interstate jurisdiction; and whether the Commission's freeze of '96 DEM allocation levels[9] constitutes a valid separations change, in that traffic sensitive costs are treated as non-traffic sensitive.

III. THE TRANSFER OF DEM WEIGHTING COSTS SUBSIDIZES IXCs WHILE UNFAIRLY BURDENING OTHER ENTITIES

DEM weighting properly recognizes the proportionately higher interstate toll switching costs incurred by small, rural ILECs. As a component of traffic sensitive access charges, DEM weighting costs are properly paid for by IXCs that benefit most from sophisticated and expensive toll network functions.

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[8] Order, at ¶ 9.

[9] *Id.*, at ¶ 304.

As stated previously, the current DEM process already double counts local minutes, which understates relative interstate usage and therefore provides an existing, built-in subsidy to the IXCs. The transfer of DEM weighting costs to a new USF mechanism — to be funded not just by IXCs, but all providers of interstate telecommunications services[10] — creates a further subsidy for the IXCs.

Many of the entities which are required to contribute to the new USF mechanism, such as Information Service Providers (ISPs), are not required to pay access charges. Yet in transferring DEM weighting costs, the Commission will be requiring ISPs and others to effectively pay for a large share of access charges under the guise of a universal service mechanism.

Because many of the designated contributors to the new USF receive little or no benefit form interstate toll network switching functions, they are unfairly burdened by the transfer of DEM weighting costs. The ICORE companies believe that at least some of these entities will seek legal or regulatory relief, or will fail to pay their DEM-related portion of USF, or will in other ways act to jeopardize the ICORE companies' receipt of their appropriate DEM weighting revenues.

IV. THE TRANSFER OF DEM WEIGHTING COSTS WILL CAUSE SEVERE ADMINISTRATIVE PROBLEMS FOR SMALL, RURAL ILECs

Those small, rural ILECs that filed traffic sensitive access tariffs under Part 61.39 of

[10] Order, at ¶ 9.

Commission rules will have to refile in just six months, for January 1, 1998. Cost companies will have to revise their cost studies, while average schedule companies will be required to rely on NECA's provision of a DEM weighting related settlement amount. The revision of interstate cost separations studies, the redevelopment of rates, and the refiling of access tariffs are extremely expensive and time consuming efforts for ILECs with fewer than 50,000 access lines.

NECA's TS CO average schedule formulas include a DEM weighting component only for companies with fewer than 10,000 access lines. It is unclear how NECA will calculate an appropriate level of DEM weighting costs for average schedule companies between 10,000 and 50,000 access lines, companies that also receive DEM weighting under Commission rules.[11] And these DEM weighting amounts are critical, since they will be removed from the minute-driven TS CO formulas, and from minute-driven TS access rates. The transfer of DEM weighting costs to a new USF negates any future growth in interstate minutes. If NECA overestimates these costs, the problem is compounded.

It is not just the question of NECA's calculation of average schedule DEM weighting amounts that is unsettling to the ICORE companies, but the specter of NECA as the administrator of the new USF which includes those amounts.[12] NECA's past administration of

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[11] Order, at ¶ 212.

[12] *Id.*, at ¶ 861.

USF has been less than stellar, particularly for average schedule companies where only the very smallest in terms of access lines per exchange have ever received funding.[13]

Just recently, the Commission found NECA to be in long standing violation of its "SPF transition" rules.[14] In its Order of May 12, 1997, at Paragraph 26, the Commission found that:

> NECA's interpretation of Section 26.154(f) is so entirely in conflict with the literal meaning and clear intent of our rules that it gives us cause for concern that NECA may not be fulfilling its responsibilities to the Commission. NECA was established at the direction of the Commission to administer important Commission programs, including common line and traffic sensitive pools, the universal service fund, the lifeline assistance program and the long term support program. We remind NECA that it must administer these pools in accordance with our requirements and has no authority to implement its own policy. As with any other parties, NECA may file a request that the Commission resolve any uncertainty about the operation of a rule. When NECA provides its own guidance in the absence of a Commission directive, it does so at the risk that its interpretation in incorrect and is subject to appropriate enforcement actions.
>
> The accompanying footnote continues the Commission's assault on NECA's credibility:
>
> This is not the first time that NECA's activities were the subject of Commission scrutiny. As recently as 1995, we issued an Order designed to address past instances of apparent misconduct and manipulation of NECA's processes. In that proceeding, an audit disclosed that several NECA directors appeared to have participated in an attempt to influence improperly common line pool earnings by inducing certain large LECs to

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[13] NECA's "1997 Modification of Average Schedules," filed with the Commission December 31, 1996, identifies only 189 average schedule ILECs, with 536 access lines or fewer per exchange, as eligible for USF payments in 1997. The total USF payments to these ILECs of $9.369 million is a tiny fraction of the total universal service fund for 1997.

[14] See In the Matter of Florida Public Service Commission Request for Interpretation of the Applicability of the Limit on Change in Interstate Allocation, Section 36.154(f) of the Commission's Rules, AAD 95-77, Report and Order, March 22, 1996; Order, March 12, 1997.

report data to NECA that were inconsistent with our accounting, separations and access charge rules. The resulting Order required that NECA correct any data that it reasonably believed do not comply with our rules. *See* Safeguards to Improve the Administration of the Interstate Access Tariff and Revenue Distribution Processes, *Report and Order to Show Cause*, CC Docket No. 93-6, RM 7736, 10 FCC Rcd 6243, 6245 (rel. Mar. 8, 1995).

Part of NECA's response to this issue was to convene a small group of private parties to negotiate retroactivity — even though the Commission's orders did not prescribe retroactivity — and then to send out a June 25, 1997 letter and "Settlement Agreement" (Exhibit 1) to its members. This "Settlement Agreement," along with a letter of July 8, 1997(Exhibit 2), forces NECA member companies to give up all regulatory and legal recourse in order to be accorded the "benefits" of this negotiated retroactivity.

The ICORE companies are all members of NECA. They have all signed Revenue Distribution Agreements with NECA which outline each party's obligations and rights relating to the interstate pooling process. They do not, therefore, understand why it is necessary for them to sign a separate document and give up all rights on this issue in order to be treated in a fair, equitable and non-discriminatory manner — that is, in a manner consistent with the Revenue Distribution Agreement — by their pool administrator.

NECA's history of arbitrary USF administration, misinterpretation of Commission rules, manipulation of pool results, and the draconian treatment of its own members, does not instill confidence. Based on NECA's past performance, the critical amount of revenue involved, the fact that there is only one paragraph in the Order (¶ 304) that even touches on the mechanics of the process, and the break-neck speed at which the DEM weighting transfer is approaching, the ICORE companies are understandably concerned. Even if the DEM change were conceptually valid — which it is not — there is not nearly enough time between the present and January 1, 1998 to implement it in any rational, verifiable way.

V. THE TRANSFER OF DEM WEIGHTING COSTS WILL CAUSE SEVERE FINANCIAL HARM TO SMALL, RURAL ILECs

For the reasons above, the ICORE companies perceive a very real threat to the very substantial portion of their revenues which come from interstate DEM weighting. Worse, there is an equal, if not greater, threat to their corresponding intrastate access revenues. This is because several states have prescribed traffic sensitive access rates which mirror the interstate jurisdiction. If these states reduce their rates in accordance with the interstate removal of DEM weighting, but fail to provide for the recovery of the lost DEM weighting costs through an intrastate universal service funding mechanism, there will be immediate and severe revenue reductions.

Per Exhibit 3, which includes several ICORE "cost" companies whose identities are masked for confidentiality purposes, combined interstate and intrastate DEM weighting related revenues account for about 18% to 40% of total access revenues. The Commission's plan puts these revenues — ranging from $12.62 to $31.89 per access line, per month — at very serious risk. The ICORE companies would have little choice but to attempt to raise local rates to make up for such catastrophic reductions. Local rate increases of anywhere near this magnitude, however, will destroy, not promote, universal service.

VI. <u>CONCLUSION</u>

DEM weighting for small, rural ILECs represents a rational cost allocation mechanism. As such, there is no Congressional mandate to define the costs derived therefrom as subsidies nor to move them to a new universal service fund.

The Commission has actually made a major separations change outside of Part 36 of its rules, and without discussion, input, or recommendation from the federal-state joint board. That joint board should be convened to address a number of DEM weighting issues before any changes are made to the current process.

The Commission's transfer of DEM weighting costs to a new USF improperly subsidizes IXCs while unfairly burdening other USF contributors. While today DEM weighting costs are a secure and predictable component of access charges, the Commission's decision makes them a target for regulatory and judicial review, delay and, very possibly, reduction or elimination.

Not only will these costs now be subject to legal and regulatory challenge, but to improper administration by NECA, and to implementation on the intrastate side which may ignore DEM weighting costs in their entirety.

For all of these reasons, huge amounts of small, rural ILEC revenues are at serious and immediate risk. The lost revenues can only be made up by significant local rate increases which will endanger universal service.

DEM weighting costs are a valid component of access charges, where they are properly paid by IXCs that benefit most from interstate toll network functions. The resultant revenues are a substantial and predictable source of funds for small, rural ILECs.

For the forgoing reasons, the Commission should grant the Rural Telephone Companies' Motion and not put these revenues at risk by transferring DEM weighting costs to a new universal service fund.

Respectfully submitted,

ICORE, Inc.

By: ______________________

Jan F. Reimers
President
326 South Second Street
Emmaus, PA 18049
(610) 967-3944

August 7, 1997

EXHIBIT 1

NECA NATIONAL EXCHANGE CARRIER ASSOCIATION

100 South Jefferson Road
Whippany, NJ 07981
201/884-8000
Fax: 201/884-8469

Alan W. Pedersen
Vice President-Industry Relations SW
Richard R. Snopkowski
Vice President-Industry Relations NE

June 25, 1997

RETURN REQUESTED

TO: NECA Common Line Pool Participant

SUBJECT: **Effective Date for Pooling - 5% SPF Transition Rules**

On March 12, 1997, the FCC issued a second order clarifying the 5% SPF transition rules, which require exchange carriers to transition to a 25% interstate allocation level. The FCC's order reverses an earlier interpretation of the rule that was included in NECA's Cost Issues manual and was used in preparing cost studies for data periods prior to March 22, 1996.

If the Commission's order were applied retroactively throughout the open 24-month settlement window, many small companies would be required to refund substantial amounts to the pool. The Commission declined to order such adjustments, however, in part because no pool members had sought redress and because it was concerned that this action could "result in significant adverse economic consequences for small carriers." However, not requiring retroactivity also means that all pool members continue to maintain current settlement levels, which reflect lower-than-expected pool earnings.

NECA has decided, after conferring with the parties who are most significantly impacted by this order, upon actions that will result in partial settlement retroactivity while limiting the financial harm to any pool member. The CL/TS Committee of the NECA Board has determined that a settlement agreement is the best resolution of this issue. The agreement requires adjustments to pooling data to conform to the FCC's interpretation of the rules, for all study areas, for pool months effective with the November 1995 data month forward. In addition, one company has also agreed to adjust its data for the September and October 1995 data periods. This will increase pool earnings for all companies beginning with the September 1995 data month. **Cost companies not affected by the FCC's SPF Orders and all average schedule companies will see an increase in settlements but are not required to make any pool reporting adjustments.**

NECA believes that this resolution is fair, reasonable, and in the best interest of <u>all</u> pool members. Arriving at an effective date for implementation of the FCC's decision has been a difficult process. **In the interest of reaching a final resolution of this matter on a timely basis, we are asking that an authorized representative of your company and its affiliates sign, fax, and return a copy of this letter to your NECA regional office as soon as possible.**

Successful resolution of this issue depends on obtaining your agreement. A prompt response will permit NECA to begin flowing increased settlements to your company. Your company's agreement, and its acceptance of the additional settlements described above, will release NECA, its officers and directors, the pools, and other pool members <u>who sign the agreements</u> from claims in connection with the Commission's order on the 5% SPF transition rule.

We appreciate your help in bringing closure to this issue. If you have any further questions, please contact either of us or your Regional Member Service Manager.

Best regards,

cc: Consultants

Agreed:

____
Signature & Title of Exchange Carrier Representative

On behalf of ______________________________ and affiliates.
(company name)

Regional Fax Numbers

Eastern Region	Midwest Region	Pacific Region	Southern Region	Southwestern Region	Western-Denver Region	North Central Region
1-201-884-8508	1-800-323-8402	1-800-354-9852	1-800-551-3038	1-800-774-2481	1-800-551-1328	1-800-367-5058

RETURN REQUESTED

Settlement Agreement

WHEREAS, the National Exchange Carrier Association, Inc. ("NECA") is responsible for administering certain interstate access charge tariff revenue pools in compliance with the rules of the Federal Communications Commission ("FCC" or "Commission"); and

WHEREAS, in furtherance of its responsibilities under the Commission rules, and pursuant to certain Agreements for the Distribution of Interstate Access Revenues entered into between NECA and its member exchange carriers ("ECs"), NECA from time to time establishes procedures and practices for reporting of interstate cost and revenue data, including certain procedures known as "Cost Issues"; and

WHEREAS, in or about February 1991, NECA established Cost Issue 5.3, which interpreted section 36.154(f) of the Commission's rules (the "5% limitation rule") as requiring NECA member ECs to apply the 5% limit on the change in interstate allocations on a year-to-year basis; and

WHEREAS, on March 22, 1996, the FCC Common Carrier Bureau issued an order in the Matter of Florida Public Service Commission Request for Interpretation of the Limit on Change in Interstate Allocation, Section 36.154(f) of the Commission's Rules, AAD 95-77 (the "Bureau Order"), which determined that section 36.154(f) of the Commission's rules requires exchange carriers that have transitioned to a 25% interstate allocation level to remain at that level notwithstanding, among other things, subsequent changes in universal service fund (USF) payment amounts and mergers and acquisitions; and

WHEREAS, on May 12, 1996, the FCC Common Carrier Bureau issued an additional order staying the retroactive application of the Bureau Order for periods prior to March 22, 1996; and

WHEREAS, on March 12, 1997, the Commission issued Order FCC 97-83 in the above proceeding (the "Commission Order") upholding the Common Carrier Bureau's March 22, 1996 Order; and

WHEREAS, the Commission found that, "as a general rule, declaratory rulings that interpret, but do not change, obligations under existing Commission rules have the effective date of the rule"; and

WHEREAS, notwithstanding the above finding, the Commission deferred consideration of whether intrapool (retroactive) adjustments for periods prior to March 22, 1996 should be required at this time because no NECA pool members had sought redress, and in connection with this decision, noted that by not requiring such adjustments, it was "taking no action that will result in significant adverse economic consequences for small carriers" consistent with section 257 of the Communications Act; and

Settlement Agreement (continued)

WHEREAS, it is claimed that retroactive implementation of the Bureau's Order by NECA would result in significant adverse economic harm on certain NECA member ECs (herein, "High SPF Companies") who, in reliance on NECA's initial Cost Issue 5.3, applied section 36.154(f) on a year-to-year basis during periods prior to March 22, 1996; and

WHEREAS, certain exchange carriers whose interstate allocations were not affected by the Bureau Order (herein, "Low SPF Companies") have claimed that their pool settlements for periods prior to March 22, 1996 were adversely affected by NECA's initial interpretation of section 36.154(f) of the Commission's rules; and

WHEREAS, certain of the Low SPF Companies and High SPF Companies are desirous of reaching a fair and equitable settlement of conflicting claims upon the NECA pools, in a manner that assures compliance with the FCC rules, as specified in the Commission's Order, ;

NOW, THEREFORE, the undersigned AGREE as follows:

1. High SPF Companies that are parties to this Agreement will adjust settlement data reported to NECA so as to be in conformance with the Commission's clarified rules for all data periods including and subsequent to November 1995, with the exception of Pacific Telecom, Inc., which has separately agreed to adjust settlement data for itself and its affiliates for all data periods including and subsequent to September 1995. Such adjustments shall be made by the High SPF Companies in accordance with NECA procedures and may be made over no more than a six-month period, in equal installments. No company which reported common line costs for 1995 data months on the basis of the Commission's clarified rules may subsequently change and elect treatment under NECA's Cost Issue 5.3 for those periods. The SPF adjustment amount contemplated under this paragraph has been estimated by NECA to amount to approximately $22 million. For purposes of this estimate, NECA calculated for the time periods set forth above the difference (at the authorized rate of return) between each High SPF Company's common line revenue requirement, using the allocation factor permitted under NECA's Cost Issue 5.3 dated February 1991, and the company's common line revenue requirement calculated using the allocation factor consistent with the Commission's clarified rules. NECA will apply its cost study validation procedures to 1995 cost studies and 1996 cost studies to ensure that reported pool revenue requirements are in compliance with FCC rules and the terms of this Settlement Agreement.

2. For and in consideration of the High SPF Companies' agreement to make the adjustments described above, the Low SPF Companies party to this agreement agree to withdraw and terminate all claims, appeals, reviews, reconsiderations, or other actions whatsoever filed or maintained by them pertaining to the Bureau's Order, the Commission Order, and NECA's actions implementing these Orders and the 5% Limitation Rule, whether regulatory or legal, with prejudice and without further right or possibility of appeal or reconsideration, and hereby acquit, release and fully discharge NECA, other NECA pool members party to this agreement, and those pool members participating in this agreement pursuant to Exhibit A, and their respective officers, directors, agents,

Settlement Agreement (continued)

employees, representatives, successors and assigns, from any and all claims in connection with the matters described herein.

3. For and in consideration of Low SPF Companies' agreement to withdraw and terminate all legal and regulatory proceedings and to acquit and release NECA and other NECA pool members, as described in paragraph 2 above, the High SPF Companies party to this agreement likewise agree to withdraw and terminate all claims, appeals, reviews, reconsiderations, or other actions whatsoever filed or maintained by them pertaining to the Bureau's Order, the Commission Order, and NECA's actions implementing these Orders and the 5% Limitation Rule, whether regulatory or legal, with prejudice and without further right or possibility of appeal or reconsideration, and likewise hereby acquit, release and fully discharge NECA, other NECA pool members party to this agreement, and those pool members participating in this agreement pursuant to Exhibit A, and their respective officers, directors, agents, employees, representatives, successors and assigns, from any and all claims in connection with the matters described herein.

4. Notwithstanding any other provision hereof, this agreement shall not be effective until (a) NECA notifies the parties that settlement agreements on substantially the same terms and conditions as this Agreement have been executed by (1) substantially all High SPF Companies and all Low SPF Companies with more than $1 million in estimated claims; and (2) that agreements in letter form (as shown in Exhibit A) releasing NECA, its officers and directors, the pools, and other pool members party to this agreement and those pool members participating in this agreement pursuant to Exhibit A, and their respective officers, directors, agents, employees, representative, successors and assigns, from any and all claims in connection with the matters described herein, have been executed by substantially all other Low SPF Companies; and (b) the NECA Common Line and Traffic Sensitive Committees, acting on delegated authority from the NECA Board, have adopted resolutions conforming to this Agreement. All legal and/or regulatory filings necessary to effectuate the actions described in paragraphs 2 and 3 above shall be completed no later than 30 days following receipt of the notification described in clause (a) of this paragraph. The parties agree that the phrase "substantially all", as used in this paragraph, shall mean that number of companies estimated by NECA as having aggregate dollar amounts at issue relating to the 5% SPF limitation rule equal to approximately 95% of the total amount at issue. NECA agrees that it will use its best efforts to obtain agreements with substantially all High SPF and Low SPF companies as required herein. NECA further agrees that, (i) with respect to any Low SPF company that does not participate in this Agreement, and that has more than a de minimis potential claim relating to the 5% SPF limitation rule, that it will maintain a separate account for funds resulting from this Agreement unless lawfully

Settlement Agreement (continued)

restrained from doing so, and that it will not release such funds until such time that, in its reasonable judgment, the claims such Low SPF company may have against NECA and/or other pooling companies have been extinguished or resolved; and (ii) with respect to any High SPF Company that does not participate in this Agreement, and that has more than a de minimis amount at issue relating to the 5% SPF limitation rule, that it will continue to make adjustments on a month-by-month basis to such company's pooling data, unless lawfully restrained from doing so, and will maintain the resulting funds in a separate account until such time that, in its reasonable judgment, potential claims against such funds have been extinguished or resolved. In the event that the conditions stated in clauses (a) and (b) above are not met by September 30, 1997, this Agreement shall be null and void.

5. Notwithstanding any other provision hereof, the agreed-upon adjustments described in paragraph 1 above shall not be required unless and until all claims, appeals, reviews, reconsiderations, or other actions whatsoever filed or maintained by any Party to this Agreement, pertaining to the Bureau Order or the Commission Order, whether regulatory or legal, have been withdrawn or terminated, with prejudice and without further right or possibility of appeal or reconsideration. Parties to this Agreement maintaining such actions agree to be responsible for providing written notification to NECA documenting the withdrawal or termination of such claims no later than 10 business days following the effective date of such withdrawal or termination.

6. Upon receipt of documentation indicating that legal and/or regulatory actions seeking reconsideration or court review of the Commission and Bureau Orders have been withdrawn or terminated in accordance with paragraphs 2 and 3 above, NECA shall immediately notify all parties to this Agreement, and the adjustments required under paragraph 1 shall begin with the Settlement Cycle that occurs in the month in which NECA provides such notice.

7. This agreement is subject in its entirety to decisions, orders or other written direction of the Federal Communications Commission or other regulatory agency having requisite jurisdiction.

8. The parties agree that this Settlement Agreement is a compromised settlement of disputed claims and that neither the execution of this Agreement nor the pooling adjustments made pursuant to this agreement is or shall be construed as an admission of liability or of amount or nature of damages, or of any facts or interpretations of law.

9. This agreement may be executed in counterparts, with each and every copy having legal and binding effect. NECA shall provide copies of all counterpart agreements to any company requesting such copies. NECA shall maintain all original counterpart agreements on file for a period

Settlement Agreement (continued)

of not less than five years following the final adjustments referred to in paragraph 1. above. NECA shall produce any or all original counterpart agreements upon request in connection with any judicial or administrative proceeding relating to the matters addressed herein. Parties requesting copies of individual agreements shall be deemed to have accepted such agreements if no objections or questions are raised in writing provided to NECA within five business days of receipt of such copies.

10. The person signing below declares that he or she is a duly authorized representative, and has full power to enter into this agreement, on behalf of the named company and its affiliates.

Signed this 25th day of June, 1997:

National Exchange Carrier Association, Inc.

By: ____________________

Title: Vice President-Industry Relations SW

____
Company Name

By: ____________________

Title: ____________________

(affix corporate seal, if any)

Regional Fax Numbers

Eastern Region	Midwest Region	Pacific Region	Southern Region	Southwestern Region	Western-Denver Region	North Central Region
1-201-884-8508	1-800-323-8402	1-800-354-9852	1-800-551-3038	1-800-774-2481	1-800-551-1328	1-800-367-5058

EXHIBIT 2

NECA NATIONAL EXCHANGE CARRIER ASSOCIATION

100 South Jefferson Road
Whippany, NJ 07981
201/884-8000
Fax: 201/884-8469

Alan W. Pedersen
Vice President-Industry Relations SW
Richard R. Snopkowski
Vice President-Industry Relations NE

July 8, 1997

To: All Common Line Pool Participants

Subject: IMPLEMENTATION OF THE FCC SPF TRANSITION RULES

The purpose of this letter is to update you on the status of the SPF settlement agreement. On June 25, 1997, NECA sent a settlement agreement form to each Common Line pool participant for their approval. We continue to believe the best interest of all pool members will be served through a negotiated settlement agreement. This settlement agreement will establish an effective date for pooling, to implement the FCC SPF Orders. To date, NECA has received signed settlement agreements for 650 study areas. However, there has not yet been sufficient time to receive signed settlement agreements from all Common Line pool participants.

Since full agreement has not yet been reached, NECA will continue to withhold from those companies with SPFs higher than the clarified rule allows, an amount equal to the SPF impact for the June 1995 data month settlement. This is the same process that we employed for May 1995.

NECA will hold these funds in a separate account that earns interest until the Common Line settlement agreement is attained. If the Common Line pool participants ratify a settlement agreement prior to July 28, both the May and June action will be reversed by refunding the previous withheld amounts, including interest, for those High SPF companies that have signed the agreement.

If you have not already done so, please sign and return a copy of the agreement to your NECA regional office as soon as possible, so we can bring closure and certainty to implementation of the FCC's decision. When full agreement is attained, the increased pool earnings will be reflected in your monthly settlements. If you have any questions, please contact your Regional Member Service Manager.

Very truly yours,

cc: Consultants

EXHIBIT 3

1996 ACCESS REVENUES
Impact of Removal of DEM Weighting

	Projected IS Loss	Projected ST Loss	Total Loss
Company A	$133,446	$169,560	$303,006
Company B	$596,066	$1,118,938	$1,715,004
Company C	$53,651	$67,459	$121,110
Company D	$127,591	$101,858	$229,449
Company E	$56,218	$171,497	$227,715
Company F	$199,395	$63,925	$263,320
Company G	$46,628	$91,246	$137,874

1996 IMPACT OF DEM WEIGHTING

	Booked Access Revenues	Total Loss	Percent Loss
Company A	$1,429,951	$303,006	21.19%
Company B	$6,229,601	$1,715,004	27.53%
Company C	$461,419	$121,110	26.25%
Company D	$852,939	$229,449	26.90%
Company E	$1,269,843	$227,715	17.93%
Company F	$653,371	$263,320	40.30%
Company G	$616,059	$137,874	22.38%

1996 IMPACT OF DEM WEIGHTING

	Access Lines	Total Loss	Loss per Acc Line per Month
Company A	1,916	$303,006	$13.18
Company B	11,324	$1,715,004	$12.62
Company C	566	$121,110	$17.83
Company D	1,024	$229,449	$18.67
Company E	1,144	$227,715	$16.59
Company F	688	$263,320	$31.89
Company G	532	$137,874	$21.60

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing document was served by First Class mail, postage prepaid, to the following individuals this 7th day of August, 1997:

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Aimee M. Cook
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Nancy K. Smolock

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